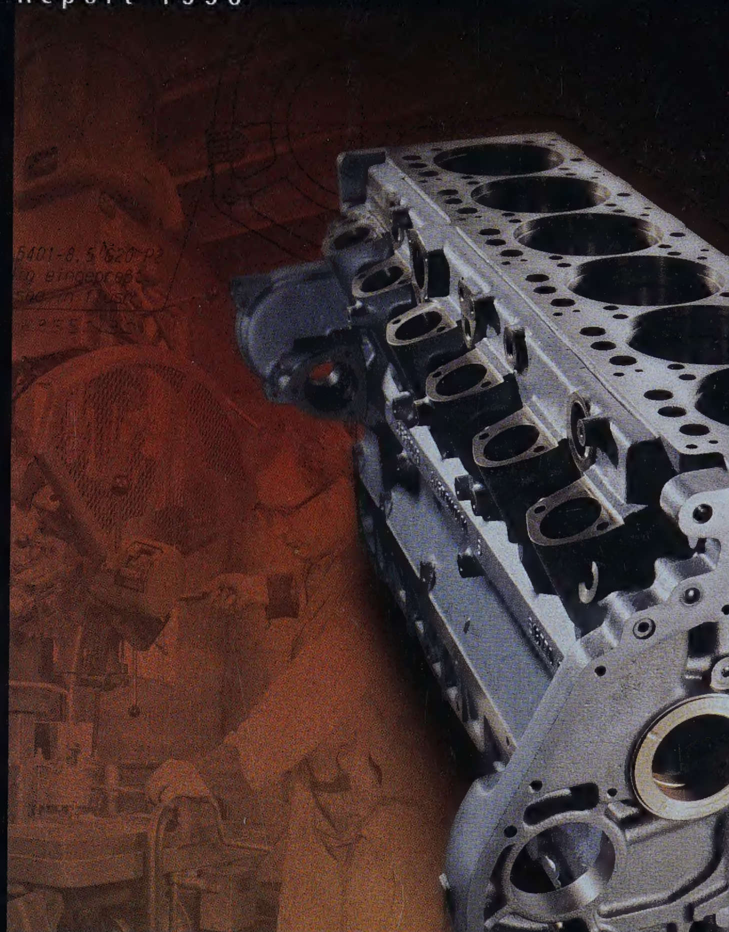
Linamar

Annual Report 1996



1966/1996 Linamar Corporation

Annual Meeting

The Company's annual meeting will take place at the College Inn Hotel & Conference Centre, 716 Gordon Street at Stone Road, Guelph, Ontario at 6 p.m., on Thursday, May 1, 1997.

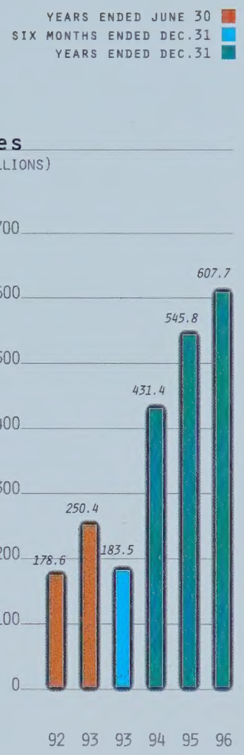
Linamar Corporation

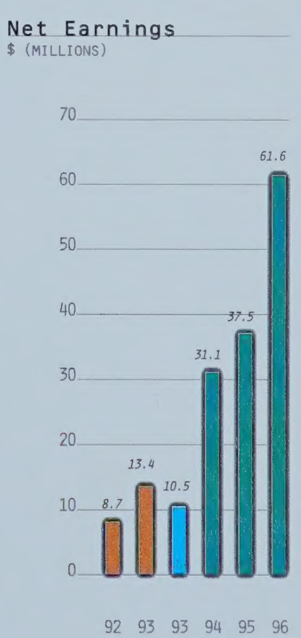
Frank J. Hasenfratz, Chairman
Larry J. Pearson, President
Linda Hasenfratz, Corporate Secretary
Michael Annable, Director of Human Resources
W. George Sims, Director of Finance
Mark Stoddart, Director of Marketing
Nick Efthimakis, Group Vice President
Jim Jarrell, Group Vice President
Walter Stachnyk, Group Vice President

Financial Highlights

(millions of dollars, except per share figures)

	Years Ended December 31 1996	1995	1994	Six Months Ended December 31 1993	Years Ended June 30 1993	1992
Statement of Earnings						
Sales	**$607.7**	$ 545.8	$ 431.4	$ 183.5	$ 250.4	$178.6
Net Earnings	**61.6**	37.5	31.1	10.5	13.4	8.7
Per Share						
Net Earnings	**2.76**	1.70	1.44	0.51	0.74	0.53
Financial Position						
Total Assets	**364.4**	330.0	250.7	209.4	193.6	133.0
Long-Term Debt	**18.1**	28.0	23.7	28.5	35.3	27.8
Shareholders' Equity	**240.1**	184.4	152.2	120.5	72.5	57.9
Other Financial Information						
Cash from Operating Activities	**128.5**	38.4	53.7	16.3	1.8	15.1
Capital Expenditures	**89.5**	54.1	52.8	23.0	32.9	21.5
Depreciation and Amortization	**40.5**	30.1	25.1	10.0	15.0	11.1
Working Capital	**$ 52.5**	$ 41.1	$ 40.3	$ 36.1	$ 2.9	$ 21.2





Directors

Frank J. Hasenfratz
Chairman of the Board
& Chief Executive Officer
Linamar Corporation

Larry J. Pearson
President
& Chief Operating Officer
Treasurer of the Board
Linamar Corporation

Robert M. Wilson*†
Retired Automotive Executive
Oshawa, Ontario

Hugh Guthrie*†
Partner
Hungerford, Guthrie and Berry
(Barristers and Solicitors)
Guelph, Ontario

William J. Harrison*†
President
& Chief Executive Officer
Kenhar Corp.
Guelph, Ontario

* Audit Committee
† Human Resources and Corporate Governance Committee

Auditors, Transfer Agent & Registrar

Coopers & Lybrand, Chartered Accountants, Waterloo, Ontario are the auditors of Linamar Corporation. The transfer agent and registrar for the Common Shares of the Company is Montreal Trust at its principal offices in Toronto.

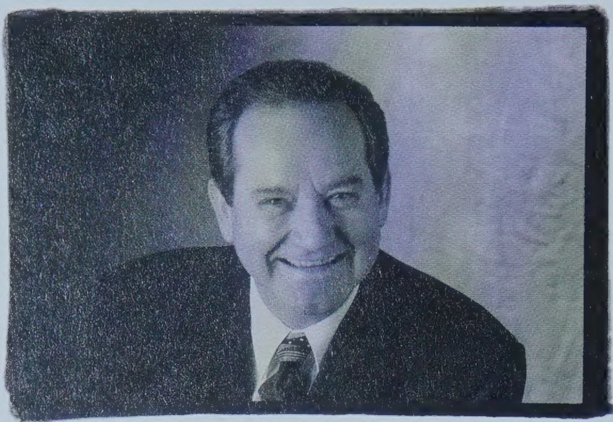
Shares Listed

Toronto Stock Exchange trading under LNR

Planet Plates for Sanden's air conditioning systems

Shown at the left, DDC's series 55 engine block, currently being tooled up at Traxle.

Chairman's Message



Frank J. Hasenfratz
Chairman of the Board & Chief Executive Officer

During 1996, we celebrated our tenth year as a public company and our thirtieth year of operation since Linamar was created in 1966 to produce an oil pump for Ford Motor Company.

This year, we saw our results continue to improve and to reach new highs as our sales exceeded $600 million. Naturally, we are very pleased with these results and with the continued growth and expansion of our manufacturing operations. We continue to focus our attention on being the best manufacturing supplier of highly engineered components and assemblies that we can be.

Once again this year, we continue to expand our production facilities in Ontario, in order to take advantage of the existing management expertise and infrastructure. Our subsidiaries have responded to the QS-9000 Registration Program with certification of all of our automotive subsidiaries planned by the end of 1997. Our goal is to continue to aggressively pursue market penetration in the automotive area, in order to increase our automotive market share and also our content per vehicle. We must continue to offer our customers a product with uncompromising quality, and to create the highest possible value added for both of us. The strength of our company has been based on adapting to our customers' requirements, staying flexible and tapping on every employee's participation and innovation. It is through team work that Linamar is able to maintain its controlled growth, continuous improvement and high level of quality in the products supplied to our customers.

1968

With continued growth comes continued challenges. We must strive to increase our productivity output, in order to stay competitive in this global market place. High levels of investment in machinery and equipment are necessary to allow Linamar to maintain its technological lead position in our industry. We also understand that we must continue to invest in technical training and Human Resource planning, as well as providing our employees with a safe and healthy work place.

As outsourcing and supplier reductions continue, it is important that we create the necessary business relationships to be able to provide our automotive customers with a full service product. As a result of this, we are continuing our discussions with strategic business partners, in order to ensure our success in the future. We are also paying close attention to the new North American auto manufacturers as local content rules relative to NAFTA requirements become more important.

During 1996 we received our first orders from Honda and Toyota, which we hope will be a building block for the future. Our Hungarian operation has performed well in 1996, and continues in its transformation to be Linamar's primary focal point for the supply of machined and assembled components for the European Automotive Industry. Our Hungarian operation is equipped with a skilled manufacturing work force and can offer a very competitive cost structure which makes it an attractive location for automotive growth.

Linamar's success, over the last 30 years, has been based on everyone's hard work, commitment and entrepreneurial drive. This philosophy will remain at the forefront of each and every action and decision that we make. As we move toward the next century, we are committed to constantly improve and to identify areas of market penetration that will provide the company with the ability to sustain long-term growth.

Frank J. Hasenfratz,
Chairman of the Board & Chief Executive Officer

President's Message

Larry J. Pearson
President & Chief Operating Officer

As was the case in most areas of business, in 1996 Linamar Corporation turned in another strong performance reaching new company highs in sales, earnings and employment levels. Our company continues to embark on an aggressive growth strategy, both in North America and Europe, and so we are paying particular attention to those areas of the business that will serve to help us become successful in pursuit of our goals.

We have not wavered from our commitment to the automotive sector, which during 1996 accounted for more than 88% of our customer sales, and in fact, we have strengthened this commitment through the divestiture of our North American agricultural operations to AGCO during the year. Our marketing efforts have been broadened into Europe, with the addition of new sales representation for the European marketplace, consistent with our goal of global supplier to automakers. We have also not altered our concentration on high volume niche market products which have good life expectancy in the engine, transmission, steering, suspension and braking areas of vehicles. During 1996, the majority of our new business was in the form of sole source contracts to the automotive sector, which is important for our aggressive program of capital expenditure.

The goal of continued growth and expansion dictates the need to meet and exceed customer's expectations for continuous improvement, cost reductions and higher productivity. This can only be met through the development of human resources, and the dedication to ongoing training of our employees, at all levels, as we manage our business as an entrepreneurship.

We acknowledge that today's competitive business environment requires effective quality management systems as demanded by QS-9000 Registration. We, therefore, demand subsidiary compliance to these high standards with nine of our subsidiaries currently designated as QS-9000 Registered Suppliers and the balance of the automotive group scheduled for registration in 1997.

During 1996, the agricultural segment showed improvement in earnings, which was largely attributed to the sale of the North American agricultural assets to AGCO. Although we have exited this business sector in North America, we are very positive on the prospects in Europe for Mezőgép. Both operating divisions in Orosháza and Békéscsaba had good contributions with 1997 looking even better for corn heads, sunflower heads and fabricated components. Mezőgép will also continue to supply AGCO with the same products previously shipped to Western Combine.

Once again, this year the automotive segment of our business increased with further market penetration in areas such as transmission cases, power steering pumps, axle shafts and transmission clutches. During the year, Comtech and Vehcom were in full production on transmission cases and drive train components while Linex, Emtol and Ariss saw new opportunities from Cummins and Allison Transmission. Our Invar subsidiary continued its transition to a higher concentration of automotive work while substantially completing the balance of its Wolsong nuclear contract.

In the additional manufacturing space at Quadrad, we began production of transmission components for Chrysler and prototypes for ZF related to the new sport utility vehicle market. We also completed construction on a 95,000 square foot facility to house our newly formed Cemtol operation, which will manufacture fuel injection components for Cummins.

During the year, we also successfully partnered with the Mercedes Benz Berlin plant for the combined sharing of manufacturing and design expertise, as it relates to cam shaft phasing systems as well as water and oil pumps. This is a very positive move for us, since we now have access to the new product design experience of Mercedes Benz in the area of pumps, where we are particularly strong from a manufacturing point of view.

In terms of our financial results for 1996, our sales for the year reached $607 million, an increase of $62 million or 11% from 1995. All of this improvement came directly from the automotive segment of our business. Operating earnings increased from $55.1 million in 1995 to $83.8 million in 1996. This represents an increase of 52%. Our gross margin percentage has improved during 1996 which is largely related to a shift in consigned material contracts during the year. Net earnings for the year showed an improvement from $37.5 million or $1.70 per share in 1995, up to $61.6 million or $2.76 per share in 1996. This increase of $24.1 million is a 64% increase from last year and includes $7.1 million relating to the disposal to AGCO. Net cash generated from operating activities in 1996 was $128.5 million as compared to the $38.4 million generated in 1995. This increase in net cash generation is attributed to the improved earnings and the positive working capital change from the sale to AGCO. During 1996, the Company invested $89.5 million in capital asset purchases as we continue to invest in state of the art machinery and equipment related to engine, transmission, brake and steering components. This expenditure is well within our policy constraint of cash generated from operations which was $96.1 million during the year. We believe that our balance sheet has been strengthened with improvements in working capital and our total debt to equity ratio has been reduced to 0.5:1. Bank surpluses are unusually high this year end due to the surplus generated from the sale of the agricultural assets in July of this year. Linamar's goal of annual return on average shareholders' equity of 20% was achieved in 1996 with a return of 29%, the fourth straight year we have exceeded our goal.

We believe the Company is well positioned for the challenges of the upcoming years and we continue to devote our attention to the development of our people. With a growing workforce, currently at 3,948, we know the value and importance of employee training.

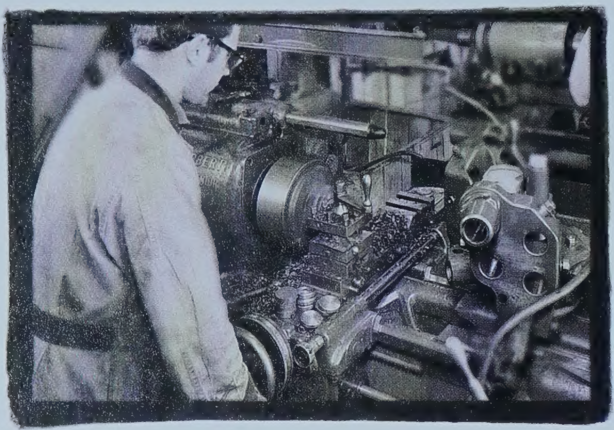
Both our Environmental Committee and Health & Safety Committee have continued their aggressive posture throughout 1996 in order to be in compliance with all the regulatory issues, and to provide our employees with a clean, safe and pleasant working environment.

Although our results in 1996 were good, we realize that we can not rely on the past and so we focus on continuous improvement for the benefit of our customers, our shareholders and our employees.

Pearson

Larry J. Pearson,
President & Chief Operating Officer

Thirty Years of Growth



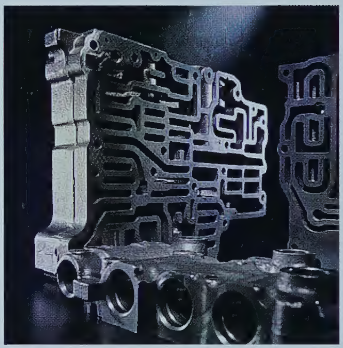
Manual machining circa 1971.

Since its inception in August of 1966, then known as Linamar Machine Limited, our Corporate philosophy has been based on four simple, yet demanding, premises: work hard, study, learn and appreciate people. Today, some 30 years later, those four premises are still followed by Linamar Corporation.

From the basement of the Hasenfratz' family home, and the production of an automotive oil pump, an entrepreneurship under the direction of Frank Hasenfratz has grown over 30 years to be one of the largest independent manufacturers of machined components in North America.

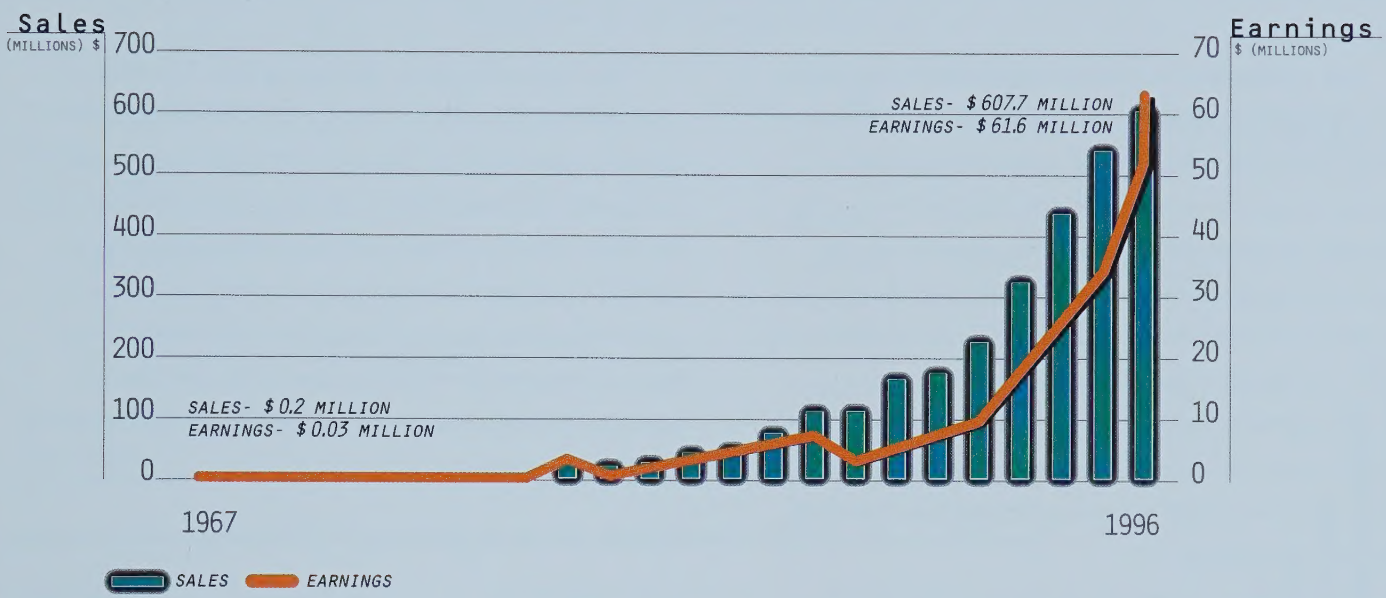
Aluminum transfer cases for Ford pick-up trucks.

From its origination, Linamar has grown today to employ more than 3,900 employees in 16 operating facilities including Canada, Hungary and the United States. All of these operations are committed to the simple principle that only through a willingness to go the extra mile and to learn from others can true progress be made. It is largely because of our employees' commitment to craftsmanship and their unwavering search for new ideas, methods and technologies, that the Company has enjoyed such considerable growth over the past 30 years.



Allison World Transmission valve bodies.

Through the initial vision and direction from its founder, the Company has nurtured individual entrepreneurship at the subsidiary level and with that drive and spirit, the Company has created a highly motivated and flexible manufacturing operation that is able to continuously re-engineer itself to address the ever changing competitive environment.



Over the past 30 years, the Company has continued its gradual growth pattern with more significant increases in revenues, occurring after going public on the Toronto Stock Exchange in 1986. During 1996, the growth has taken the Company through the $600 million threshold with the clear target of $1 billion on the horizon for the next century.

Over the years, we have seen not only growth in Corporate revenues, but we have also watched our people grow through individual initiative and decision making, as well as through a maturing process within our general workforce and our management team. It is gratifying, as an employer, to watch young people within the organization develop and improve their skills as they take on more demanding tasks and assume higher level positions within the Company. The motivation and enthusiasm of our employees, which has served us so very well over the past 30 years, is expected to continue to fuel the Company with the necessary energy required for another 30 years of growth.

Power steering rack housing for the new Mercedes all activity vehicle.

Management's Responsibility for Consolidated Financial Statements

The management of Linamar Corporation is responsible for the preparation of all information included in this annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates. Financial information included elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a system of internal accounting controls to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded.

The Company's external auditors, appointed by the shareholders, have prepared their report which outlines the scope of their examination and their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Company. The Audit Committee meets with management and with the auditors to discuss accounting policy, auditing and financial reporting matters. The Committee reports its findings to the Board of Directors for their consideration in reviewing and approving the consolidated financial statements for issuance to the shareholders.

Frank J. Hasenfratz
Chief Executive Officer

Larry J. Pearson
President & Chief Operating Officer

Auditors' Report to the Shareholders of Linamar Corporation

We have audited the consolidated balance sheets of Linamar Corporation as at December 31, 1996 and December 31, 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and December 31, 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants
Waterloo, Ontario
February 5, 1997

Consolidated Balance Sheet

As at December 31, 1996 (thousands of dollars)

	December 31 1996	December 31 1995
Assets		
Current Assets		
Cash	$ 26,178	$ -
Accounts receivable	84,935	101,835
Inventories (Note 2)	48,306	61,952
Prepaid expenses	493	550
	159,912	164,337
Capital Assets (Notes 3 and 4)	204,486	165,590
Other Assets	-	73
	$364,398	$ 330,000
Liabilities		
Current Liabilities		
Bank advances	$ -	$ 22,607
Accounts payable and accrued liabilities	80,051	78,570
Income taxes	13,642	6,558
Current portion of long-term debt (Note 4)	10,255	10,037
Advance payments from customers	3,476	5,486
	107,424	123,258
Long-Term Debt (Note 4)	7,802	18,009
Deferred Income Taxes	8,240	4,250
Non-Controlling Interests	850	128
	124,316	145,645
Contingent Liabilities (Note 7)		
Shareholders' Equity		
Capital Stock (Note 5)	64,455	63,182
Retained Earnings	175,627	121,173
	240,082	184,355
	$364,398	$ 330,000

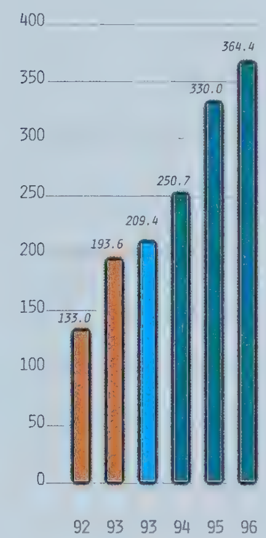
On Behalf of the Board of Directors

Frank J. Hasenfratz
Director

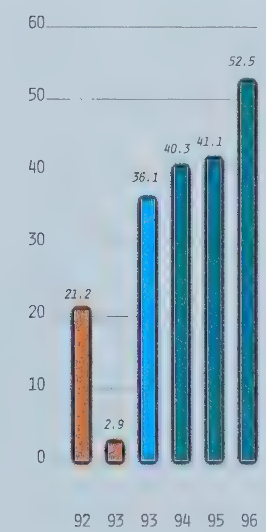
Larry J. Pearson
Director

YEARS ENDED JUNE 30
SIX MONTHS ENDED DEC.31
YEARS ENDED DEC.31

Total Assets
$ (MILLIONS)



Working Capital
$ (MILLIONS)



Consolidated Statement of Retained Earnings

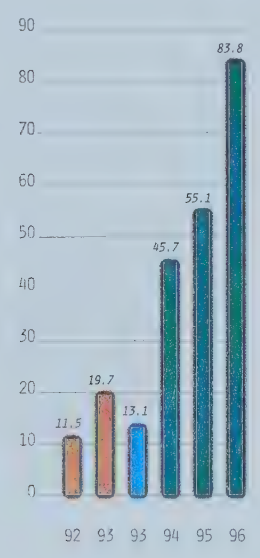
For the Year Ended December 31, 1996 (thousands of dollars)

	December 31 1996	December 31 1995
Balance - Beginning of Year	**$121,173**	$ 89,823
Net earnings for the year	**61,608**	37,530
	182,781	127,353
Dividends	**7,154**	6,180
Balance - End of Year	**$175,627**	$ 121,173

YEARS ENDED JUNE 30
SIX MONTHS ENDED DEC.31
YEARS ENDED DEC.31

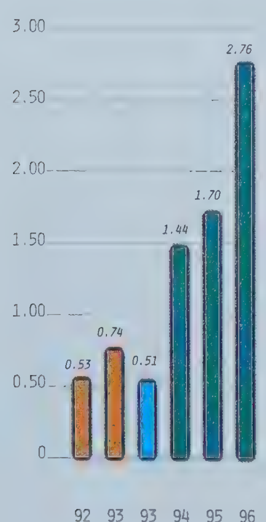
Operating Earnings

$ (MILLIONS)



Earnings Per Share

$



Consolidated Statement of Earnings

For the Year Ended December 31, 1996 (thousands of dollars except per share figures)

	December 31 1996	December 31 1995
Sales	**$607,692**	$ 545,754
Cost of Sales and Operating Expenses		
Before the Following:	**447,551**	424,969
Depreciation and amortization	**40,489**	30,061
Selling, general and administrative	**33,663**	32,028
Interest on long-term debt	**1,000**	1,583
Other interest	**1,218**	2,046
	523,921	490,687
Operating Earnings	**83,771**	55,067
Other Income		
Gain on disposal of business unit	**10,824**	-
Other	**1,912**	1,480
	12,736	1,480
	96,507	56,547
Provision for Income Taxes (Note 6)		
Current	**29,658**	16,535
Deferred	**3,990**	2,418
	33,648	18,953
	62,859	37,594
Non-Controlling Interests	**1,251**	64
Net Earnings for the Year	**$ 61,608**	$ 37,530
Earnings Per Share (Note 10)		
Net earnings for the year	**$ 2.76**	$ 1.70

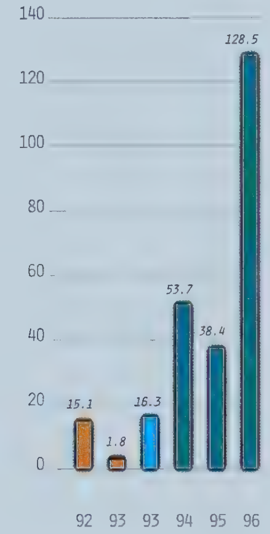
Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1996 (thousands of dollars)

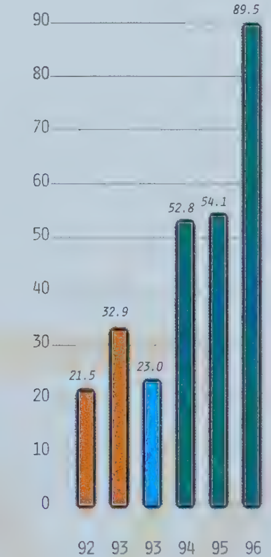
	December 31 1996	December 31 1995
Operating Activities		
Net earnings for the year	$ 61,608	$ 37,530
Charges (credits) to earnings not involving cash:		
Depreciation and amortization	40,489	30,061
Deferred income taxes	3,990	2,418
Non-controlling interests	1,251	64
Gain on disposal of capital assets	(369)	(203)
Gain on disposal of business unit	(10,824)	-
Gain on disposal of other assets	-	(152)
	96,145	69,718
Net change in non-cash working capital balances related to operations	32,335	(31,362)
	128,480	38,356
Financing Activities		
Proceeds from long-term debt	897	6,781
Repayment of long-term debt	(10,886)	(2,419)
Proceeds from common share issuance	1,273	840
Dividends to shareholders	(7,154)	(6,180)
Dividends by subsidiaries to non-controlling interests	(1,776)	-
	(17,646)	(978)
Investing Activities		
Purchase of capital assets	(89,497)	(54,145)
Proceeds from disposal of capital assets	801	1,098
Investment by minority shareholders	1,247	-
Proceeds from disposal of other assets	-	716
Proceeds from disposal of business unit	25,400	-
	(62,049)	(52,331)
Decrease (Increase) in Bank Advances	48,785	(14,953)
Bank Advances - Beginning of Year	(22,607)	(7,654)
Cash (Bank Advances) - End of Year	$ 26,178	$ (22,607)

YEARS ENDED JUNE 30
SIX MONTHS ENDED DEC.31
YEARS ENDED DEC.31

Cash from Operating Activities
$ (MILLIONS)



Capital Expenditures
$ (MILLIONS)



Notes to the Consolidated Financial Statements

For the Year Ended December 31, 1996

1. Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries. Acquisitions are accounted for using the purchase method.

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value.

Capital Assets and Depreciation

Capital assets are recorded at cost. Depreciation is charged to earnings in amounts sufficient to amortize the cost of capital assets over their estimated useful lives using the diminishing balance and straight-line methods as follows:

	Method	Rates
Buildings	Diminishing balance	5%
Machinery	Diminishing balance	20, 25%
Office equipment	Diminishing balance	20%
Vehicles	Diminishing balance	30%
Tooling	Straight-line	100%

Patents and Licences

Patents are recorded at cost and are amortized on a straight-line basis over a period of 17 years. Licences are recorded at cost and are amortized on a straight-line basis over a period of 3 years.

Pension Costs

The company has various contributory and non-contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue.

Earnings Per Share

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the year.

Foreign Currency Translation

The company enters into forward exchange contracts to limit its exposure under contracted US$ net cash inflows. These contracts are treated as hedges. The monetary assets and liabilities of the company which are denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings except those which relate to hedges of future net cash flows.

The company's foreign operations are of an integrated nature and the company uses the temporal method to translate the accounts of its subsidiaries.

Revenue Recognition

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of tooling is recognized once the tooling is substantially complete and the customer approves the initial production sample.

Research and Development

Research costs are expensed as incurred. Development costs are expensed as incurred but would not be expensed if they met the criteria under generally accepted accounting principles for deferral and amortization.

2. Inventories (thousands of dollars)

	December 31 1996	December 31 1995
Raw materials	$ 18,107	$ 18,311
Work-in-process	19,986	23,839
Finished goods	10,213	19,802
	$ 48,306	$ 61,952

3. Capital Assets (thousands of dollars)

	December 31 1996			December 31 1995
	Cost	Accumulated depreciation	Net	Net
Land	$ 3,571	$ -	$ 3,571	$ 3,571
Buildings	32,173	7,270	24,903	19,839
Machinery	290,890	120,924	169,966	138,166
Office equipment	4,379	2,480	1,899	1,559
Vehicles	1,018	562	456	501
Tooling	21,753	18,062	3,691	1,954
	$353,784	$149,298	$204,486	$ 165,590

As at December 31, 1996, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $19 million.

4. Long-Term Debt (thousands of dollars)

	December 31 1996	December 31 1995
Interest free loans	$ -	$ 2,164
Interest free loan payable in instalments of $600,000 in 1997, $1,100,000 in 1998, 1999 and 2000, and $1,074,248 in 2001	4,974	5,532
Interest free loans payable	579	579
Interest free loan payable in Hungarian forints 96,750,000 in annual instalments of 40,000,000 beginning in 1998	819	-
Bank term loan payable at 7.3125%	-	6,820
Bank term loan, US$ 2,000,000 payable in 1997 with interest at 7.52%	2,741	2,728
Bank term loan, US$ 4,570,000 payable in 1997 with interest at 6.75%	6,263	6,233
Bank term loan, payable in blended monthly instalments of $60,426 with interest at the lending bank's prime interest rate plus 1.375% and a final payment of $950,000 in September, 1999	2,569	3,110
Other	78	843
Deferred exchange gain	34	37
	18,057	28,046
Less: Current portion	10,255	10,037
	$7,802	$ 18,009

4. Long-Term Debt (thousands of dollars) (continued)

Principal payments required to meet long-term debt obligations in the next five years are as follows:

Year ending December 31,	1997	$ 10,255
	1998	2,094
	1999	2,818
	2000	1,237
	2001	1,074

Specific machinery is pledged as security for the interest free loans, the loans payable in Hungarian forints and the bank term loan in the amount of $2.569 million.

The company is committed under certain long-term operating leases. Future minimum lease payments under these operating leases are as follows:

Year ending December 31,	1997	$ 1,698
	1998	1,633
	1999	1,302
	2000	934
	2001	450
	Thereafter	25

5. Capital Stock

During the year, options for 271,000 common shares were exercised giving proceeds of $1,273,563.

Under the Company's employee share option plan, the Company granted options during the year on common shares. These options, which remained outstanding at year-end, can be exercised as follows:

375,000 at $22.41 a share before February 21, 2001
4,000 at $25.00 a share before May 1, 2001
562,000 at $33.51 a share before January 11, 2002, subject to shareholder approval of amendments to the employee share option plan.

At December 31, 1996, under the employee share option plan, the company also had options outstanding which can be exercised as follows:

870,000 at $10.75 a share before February 1, 1998
282,500 at $17.50 a share before June 1, 1999.

	December 31 1996	December 31 1995
Authorized:		
Unlimited special shares		
Unlimited common shares		
Issued: (thousands of dollars)		
22,360,092 common shares (1995 - 22,089,092)	**$ 64,455**	$ 63,182

6. Income Taxes

The company's effective tax rate is made up as follows:

	December 31 1996	December 31 1995
Combined basic Canadian Federal and Provincial income tax rate	**43.50 %**	43.50 %
Increase (decrease) in the income tax rate resulting from:		
Manufacturing and processing reduction	**(9.00)**	(9.00)
Federal income surtax	**1.12**	1.07
Effect of foreign earnings	**(2.29)**	(2.72)
Miscellaneous	**1.54**	0.67
Effective income tax rate	**34.87 %**	33.52 %

7. Contingent Liabilities

The company is involved in certain lawsuits and claims. Management is of the opinion that there will not be any significant additional liability other than amounts already provided for in these financial statements.

8. Related Party Transactions

Included in the purchase of capital assets are the construction of a building, building additions and building improvements in the aggregate amount of $5.7 million by a company owned by the spouse of a member of management. Included in cost of sales are lease costs of $0.6 million (1995 - $0.9 million) related to properties leased from a company owned by a director and two members of management.

9. Foreign Currency Hedging Commitments

The company enters into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future net cash flows of US dollars from operations. The purpose of the company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. At December 31, 1996, the company was committed to a series of monthly forward exchange contracts maturing during the following three years as noted below. The net unrecognized gain is approximately $18 million. As these forward exchange contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in earnings as the sales and expenses which generate the net cash flow occur.

Year	Amount Hedged	Average Exchange Rate
1997	$132,000,000	1.4084
1998	$143,000,000	1.4022
1999	$44,000,000	1.3796

10. Fully Diluted Earnings Per Share

If it were assumed that the options had been exercised at the beginning of the year, then the earnings per share would have been $2.62 (1995 - $1.64). This calculation assumes an after-tax rate of return of approximately 6.0% on the funds which would have been received.

11. Segmented Information (thousands of dollars)

The company currently operates in two significant industry segments.

The precision machining segment consists primarily of the manufacturing and assembly of automotive components for original equipment manufacturers and their suppliers. Substantially all automotive revenue is derived from sales to major North American manufacturers. In the year ended December 31, 1996, sales to the company's largest customers amounted to 33.6%, 13.5% and 8.5% of total revenue.

The agricultural equipment segment consists of the assembly and sale of harvesting equipment.

Year Ended December 31, 1996

	Industry Segments			Geographic Segments	
	Precision Machining	Agricultural Equipment	Total	Canada	Hungary
Total revenue	$565,153	$ 42,674		$ 589,290	$ 36,715
Inter-segment sales	5	130		574	17,739
Sales to customers outside the company	$565,148	$ 42,544	$ 607,692	$ 588,716	$ 18,976
Operating earnings	$ 82,880	$ 891	$ 83,771	$ 78,005	$ 5,766
Identifiable assets	$339,745	$ 24,653	$ 364,398	$ 329,208	$ 35,190
Capital expenditures	$ 89,365	$ 132	$ 89,497	$ 83,961	$ 5,536
Depreciation and amortization	$ 39,694	$ 795	$ 40,489	$ 39,263	$ 1,226

Inter-segment sales are accounted for at prices comparable to open market prices for similar products.

Year Ended December 31, 1995

	Industry Segments			Geographic Segments	
	Precision Machining	Agricultural Equipment	Total	Canada	Hungary
Total revenue	$489,385	$ 58,864		$ 526,640	$ 43,166
Inter-segment sales	2,283	212		980	23,072
Sales to customers outside the company	$487,102	$ 58,652	$ 545,754	$ 525,660	$ 20,094
Operating earnings (loss)	$ 56,669	$ (1,602)	$ 55,067	$ 50,247	$ 4,820
Identifiable assets	$284,439	$ 45,561	$ 330,000	$ 303,170	$ 26,830
Capital expenditures	$ 53,329	$ 816	$ 54,145	$ 53,207	$ 938
Depreciation and amortization	$ 28,620	$ 1,441	$ 30,061	$ 27,942	$ 2,119

Export sales from Canada to the United States amounted to $518.1 million (1995 - $443.7 million).

Export sales from Canada to Europe and Asia amounted to $2.7 million (1995 - $10.3 million).

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements.

Linamar Corporation and its subsidiaries (collectively, "the Company") operate in two business segments. The primary segment, which is the precision machining segment, is a supplier of assemblies and precision machined parts, mainly to the North American automotive industry. Through the automotive section of this segment, the Company manufactures components and parts for a wide range of platforms for automobiles, light, medium and heavy trucks. These components and parts are primarily for power train and chassis including transmissions, engines, drive line, power train systems, suspension, steering, and brakes. The North American precision machining business is centred in Guelph, Ontario where the Company operates 14 plants and employs 2,800 persons. The European precision machining business, a division of Mezőgép Incorporated, is located in Orosháza, Hungary where the Company operates one plant. The Company's other business segment, the agricultural equipment segment, includes Mezőgép Incorporated's agricultural divisions located in Hungary at Orosháza and Békéscsaba, 955780 Ontario Limited operating as Western Combine ("Western Combine") and 2699827 Manitoba Ltd. operating as Portage Manufacturing ("Portage Mfg"). Through this segment, the Company manufactured and supplied rotary combines, corn heads, stripper headers, swathers, and balers to the agricultural industry in North America, Western and Eastern Europe and Asia. In July 1996 through an asset sale, the Company sold to AGCO Corporation the North American agricultural business unit of this segment operated by Western Combine and Portage Mfg. As a result of this transaction, the Company's agricultural segment no longer has capacity to manufacture rotary combines, stripper headers, swathers and balers. Pursuant to a transitional agreement with AGCO Corporation, until October 1997, the North American agricultural companies, Western Combine and Portage Mfg., will continue to operate using the equipment and technology sold to AGCO. During this time, the companies are being promptly reimbursed by AGCO as costs are incurred by the Company in manufacturing equipment and performing engineering services for the benefit of AGCO. In October 1997, Linamar will cease its agricultural activity in North America. Linamar has retained the agricultural equipment business conducted by Mezőgép.

Consolidated Results of Operations

Revenues

The Company's consolidated revenues in the year ended December 31, 1996 totalled $607.7 million. Consolidated revenues in the year ended December 31, 1995 totalled $545.8 million, compared to $431.4 million for the year ended December 31, 1994. The increases in revenues resulted mainly from increases in the automotive section of the precision machining segment. The Company continued to increase its volume of existing business in the truck and automobile markets.

In the precision machining segment, the Company continued through 1996 to increase production under a new transmission contract obtained in 1995. Production also began under 1996 transmission and engine component contracts. In 1995, the Company began production of a number of

transmission components. During 1994, the Company began production of new ABS brake components. The sales volumes of these ABS brake components increased in 1995 and remained stable in 1996.

The Company's precision machining segment's sales during the year ended December 31, 1996 were realized at an average rate of $47.1 million a month compared to an average rate of $40.6 million a month for the year ended December 31, 1995 and $31.4 million a month during the year ended December 31, 1994. These increases resulted from a continuing growth in the volumes of both new and existing business. In 1996, the largest single contributor to increased sales was approximately $50 million of sales increases in transmission components related to contracts obtained during 1996 and 1995.

In 1996, an opportunity arose to sell the North American agricultural business unit. The Company completed this transaction to allow the Company to devote its resources to the more successful precision machining segment. During the year ended December 31, 1996, sales by the agricultural segment totalled $42.7 million, a decrease from the prior year. For the year ended December 31, 1995, the agricultural segment's sales to North American and Western European markets totalled $48.7 million compared to sales for the year ended December 31, 1994 in the amount of $39.3 million. During the year ended December 31, 1996, the agricultural segment was only marginally profitable. During each of the years ended December 31, 1995 and 1994, proceeds from the agricultural equipment segment's sales were not sufficient to cover the costs of production. The North American agricultural business unit made no sales to Eastern Europe and Asia during the year ended December 31, 1996, compared to $10.0 million for the year ended December 31, 1995 and $15.9 million for the year ended December 31, 1994. The Company had been unable to market its agricultural products in Eastern Europe and Asia at a margin adequate to cover the additional costs associated with the collection of accounts receivables and distribution costs in those markets. In 1995, the Company ceased attempts to develop those markets directly, and sold its rights to market Western Combine's products in Eastern Europe and related investments in joint ventures to a company controlled by Western Combine's former president.


W. George Sims, Director of Finance


Linda Hasenfratz, Corporate Secretary

Cost of Sales

The Company's cost of sales, excluding depreciation and amortization, as a percentage of total revenues decreased to 73.6% for the year ended December 31, 1996 from 77.9% for the year ended December 31, 1995 and 77.5% during the year ended December 31, 1994. The improvement in 1996 was a result of a combination of factors. The Company realized significant improvements in those plants which had been in

startup mode during 1995. These improvements came through a combination of working through the learning curve on a number of new lines and the ramping up of contracts towards full production. A shift in the mix of business from using purchased material to machining consigned material contributed to 30% of the 4.3% decrease. The margins on machining consigned material are higher than on machining purchased material because the value-added percentage is higher. The slight erosion in the margins in 1995, following the gains recorded in this area in 1994, was caused by lower margins in three plants which had significant programs in start-up mode during 1995. Although substantial improvements had been achieved by the 1995 year-end, these programs had not been able to meet targeted profit levels. Efforts to improve margins, particularly at these plants, continued into 1996. These efforts consist of working with employees, suppliers and customers to improve the processes to achieve appropriate margins.

Depreciation and Amortization

For the year ended December 31, 1996 depreciation and amortization costs were $40.5 million, or 6.7% of sales. For the year ended December 31, 1995, depreciation and amortization costs were $30.1 million, or 5.5% of sales. Depreciation and amortization costs were $25.1 million, or 5.8% of sales for the year ended December 31, 1994. These changes result from the Company's continued high level of investment in capital equipment as detailed in the segmented information note in the accompanying financial statements. Depreciation compared to the average net book value of capital assets was 21.9%, 20.7% and 22.2% in 1996, 1995 and 1994 respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $33.7 million or 5.5% of revenues during the year ended December 31, 1996 compared to $32.0 million or 5.9% of revenues during the year ended December 31, 1995 and to $23.8 million or 5.5% of revenues in the year ended December 31, 1994. During 1996, these expenses included final allowances of $4.3 million or 0.7% of sales related to uncollected receivables from previous years' sales by Western Combine to Eastern Europe and Asia. During the year ended December 31, 1995, those same expenses included allowances for doubtful accounts of $6.6 million and commissions payable of $0.3 million related to sales by Western Combine to Eastern Europe and Asia. During the year ended December 31, 1994, these expenses included allowances of $2.2 million for doubtful accounts and commissions payable of $1.6 million related to sales by Western Combine to Eastern Europe and Asia. No sales to Eastern Europe and Asia have been made by Western Combine since 1995, as discussed above.

Mark Stoddart, Director of Marketing

Interest Expense

Total interest expense for the year ended December 31, 1996 was $2.2 million. Total interest expense for the year ended December 31, 1995 was $3.6 million compared to $1.8 million for the year ended December 31, 1994. During the year

ended December 31, 1996, the average short-term interest rates decreased by approximately 29%. This resulted in a decrease in interest expense on short-term debt. Note 4 in the accompanying financial statements sets out the details of the long-term debt. In 1996, interest on long-term debt decreased by $0.6 million because the amount of interest bearing long-term loans decreased. During the year ended December 31, 1995, an increase in average short-term interest rates of approximately 28% resulted in an increase in interest expense on short-term debt. Although short-term borrowing fluctuated throughout 1996, the average short-term borrowing remained at a similar level to the prior year. In 1995, the Company renewed an interest bearing debt in the principal amount of US$4.57 million under an existing facility for a further two year term. Although the Company had planned to extinguish this debt in 1995, the working capital requirements in 1995 required more funding than had been budgeted. Also, certain bank loans which came due in 1995 were renewed at higher rates than had been available in the prior year.

Michael Annable, Director of Human Resources

Operating Earnings

The above-noted factors contributed to an increase in the Company's operating earnings for the year ended December 31, 1996 to $83.8 million, or 13.8% of sales, from $55.1 million, or 10.1% of sales, for the year ended December 31, 1995. The Company's operating earnings for the year ended December 31, 1994 were $45.7 million, or 10.6% of sales.

Other Income

For the year ended December 31, 1996, other income was comprised mainly of a gain of $10.8 million on the sale of the North American agricultural business unit. The balance of other income was interest earned and the net gain on the disposal of capital assets. For the year ended December 31, 1995, and the year ended December 31, 1994, other income was mainly comprised of the net gain on the disposal of capital assets and interest earned.

Income Taxes

The federal incentive for manufacturing and processing remained unchanged in the years ended December 31, 1996 and 1995. Previously, for the year ended December 31, 1994, it had increased by one percent over the prior period. In the years ended December 31, 1996 and December 31, 1995 and in the year ended December 31, 1994, the Company had a reduction in its effective tax rate as a result of the lower income tax rates in other countries in which the Company operates. In particular, Mezőgép has been granted full relief from income taxes until December 31, 2001 as long as it continues to meet certain growth targets of the Hungarian government. However, this benefit has a reduced

Jim Jarrell, Group Vice President

effect in 1996 due to the continuing increase in the Company's earnings in Canada. It is expected that this benefit will continue to diminish somewhat as the Company's proportion of earnings earned in Canada continues to increase further over time.

Nick Efthimakis, Group Vice President

Net Earnings

The Company's net earnings for the year ended December 31, 1996 were $61.6 million, or 10.1% of sales, compared to net earnings for the year ended December 31, 1995 of $37.5 million, or 6.9% of sales, and net earnings of $31.1 million, or 7.2% of sales, for the year ended December 31, 1994. The increase in 1996 as compared to 1995 resulted mainly from the unusual gain on the sale of the North American agricultural business unit and the improvements in the precision machining segment. Linamar continued to benefit from its increasing investment in capital assets (see discussion below) and better utilization of its productive capacity. Without the unusual gain, the Company's net earnings for the year ended December 31, 1996 would have been $54.6 million, or 9.0% of sales. The decrease in 1995 in the ratio of earnings as a percent of sales came as a result of the difficulties experienced at three of the North American precision machining plants. These facilities had significant projects in start-up mode and had not yet achieved margins consistent with the level of the Company's other facilities.

Capital Resources and Liquidity

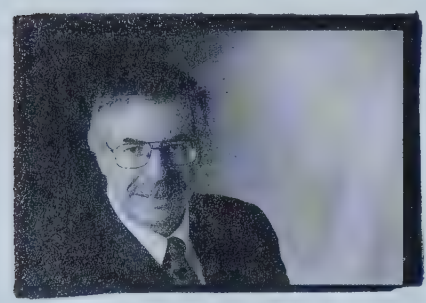
Cash and Bank Advances

The Company's net cash position at December 31, 1996 was $26.2 million. This was an increase of $48.8 million over the Company's net cash position at December 31, 1995 when the Company had outstanding the bank advances of $22.6 million. The cash position in the precision machining segment steadily increased throughout 1996. Also, the regular monthly cash receipts for December were received in December 1996, unlike at the previous year-end. Cash flow in the precision machining segment was sufficient throughout 1996 to meet the payment for expenditures on capital assets. In 1995, the Company experienced delays in payment from its major automotive customers in December as most of their facilities shut down for the year by December 23. In the first five working days after the 1995 year end, the Company received $14.5 million from its major customers. In a normal month, these cash receipts would be received prior to the month end.

Walter Stachnyk, Group Vice President

The cash position of the agricultural equipment segment in 1996 varied with the seasonality of its business. The segment builds inventories for summer sales and collects its accounts receivable through the fall. The receipt of $25.4 million of proceeds in July on the sale of the North American agricultural business unit boosted the cash position substantially.

The Company's net cash position at December 31, 1995 was comprised of bank advances of $22.6 million which represented an increase of $15.0 million over December 31, 1994. The Company's net cash position deteriorated at the beginning of 1995 as a result of the increased rate of payment for and purchases of capital assets. By the end of 1995, the capital asset activity had levelled off but two circumstances adversely affected the Company's cash resources. The Western Combine subsidiary was unable to make anticipated collections on its outstanding receivables, and December cash receipts were not received prior to the month end, as discussed above.



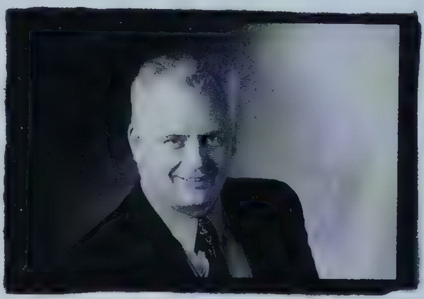
Paul Brophy, General Manager

Accounts Receivable

The accounts receivable balance of $84.9 million at the end of December 1996 is $16.9 million or 16.6% lower than the level as at December 31, 1995. This improvement was primarily a net result of the effects of the prompt collection of the December receivables (noted above) and the sale of the North American agricultural business unit, which were partially offset by the 11.3% increase in sales volume. The accounts receivable for the year ended December 31, 1996 were at the level of 14.0% of sales, as compared to 18.7% of sales for 1995 and to 15.7% of sales for the year ended December 31, 1994. The accounts receivable balance of $101.8 million at the end of December 1995 was $34.0 million or 50.3% higher than the level as at December 31, 1994. This increase was primarily a result of the slow collection of the December 1995 receivables as noted above, and the increase in sales volume of 26.5%.

Inventories

Inventories were $48.3 million at December 31, 1996, which represented a decrease of $13.7 million over the $62.0 million level as at December 31, 1995. This decrease mainly results from the sale of the North American agricultural business. At December 31, 1996, the level of agricultural equipment inventories was $4.7 million as compared to $20.5 million at December 31, 1995, and $18.6 million at December 31, 1994. The 1995 increase in inventories in this segment resulted from inventories which were produced for the Eastern European market but which were not shipped as satisfactory terms for ensuring collection of receivables could not be arranged. In 1996, these inventories were modified to conform with 1996 model standards and 1996 agricultural production was appropriately reduced prior to the sale of the business. Although there was an increase in sales volume of approximately 15.4% in the precision machining segment, inventories in this segment only increased by 4.8%. This occurred because over 50% of the increase arose from sales for which the material was consigned. As noted above, inventories were $62.0 million at December 31, 1995, representing an increase of $6.7 million



Ted McGregor, General Manager

over the $55.3 million level as at December 31, 1994. This increase mainly resulted from the 29.5% increase in sales volume in the precision machining segment.

Capital Assets

The Company's net book value of capital assets, as at December 31, 1996, was $204.5 million, being $38.9 million greater than the $165.6 million net book value of capital assets as at December 31, 1995. The purchases of fixed assets totalled $80.4 million. Of these purchases, $79.8 million was invested in the precision machining segment, being comprised mainly of machinery and tooling purchases. These investments primarily related to the production of transmission components, engine blocks, various engine parts and steering components. The balance of the 1996 capital asset investment in the precision machining segment related primarily to the Company's construction of the new Cemtol manufacturing facility and additions to the Autocom, Vehcom and Transgear plants for a total cost of approximately $5.0 million. These plants are precision machining facilities located in Guelph, Ontario. In 1996, the Company made payments of approximately $89.5 million for capital assets. These payments for purchases of capital assets were funded through cash from operating activities.

Fred Brunnmeier, General Manager

As at December 31, 1995, the net book value of the Company's capital assets of $165.6 million was $40.3 million greater than at December 31, 1994. In the year ended December 31, 1995, Linamar purchased a total of $70.6 million in capital assets, which included investments in the automotive section of the precision machining segment for machinery purchases of $60.3 million and tooling purchases of $2.9 million. As noted in the accompanying financial statements, the payments, in 1995, for the capital assets purchased totalled $54.1 million. These purchases were funded primarily through cash from operating activities. The capital assets purchased related mainly to the production of new transmission components. During the period, the Company built additions to its Quadrad, Spinic, and Roctel manufacturing facilities for a total cost of approximately $1.5 million. It also purchased and refurbished the Comtech and Vehcom facilities for the new transmission components at a cost of $3.8 million. These Guelph facilities, which are located on approximately 18.8 acres, were two of the three plants originally leased early in 1995. The third building is being used by the Company's new subsidiary, Diversa Cast Technologies Inc., to produce castings as described below. The three facilities have a total manufacturing floor space of 150,300 square feet.

Other Assets

Net other assets decreased as a result of the continued amortization during 1996. The patents at December 31, 1995 related to the agricultural equipment segment. During 1995, the Company sold the small investments it had made in agricultural ventures in Europe in the previous year.

Working Capital

Working capital at December 31, 1996 was $52.5 million, an increase of $11.4 million over December 31, 1995. The working capital at December 31, 1995 was $41.1 million, an increase of $0.8 million over the working capital at December 31, 1994. The sale of the agricultural segment's business unit in 1996 provided approximately $10 million in additional working capital. The remaining increases are considered to be within the Company's normal operating limits.

István Borsos, Plant Manager, Orosháza Division

Financial Resources

The Company's financial position continued to strengthen during 1996. At the end of the year, long-term debt accounted for only 7.0% of total capitalization. During the year ended December 31, 1996, cash provided from operating activities increased by $90.1 million to $128.5 million. As in previous years, the funds from operating activities were primarily used to fund purchases of capital assets. Funds from operations increased by $26.4 million during 1996 from $69.7 million to $96.1 million over the previous year, and the non-cash working capital provided by operations in 1996 increased by $63.7 million to $32.3 million from a use of $31.4 million. This reversal in 1996 had been expected. In 1997, it is anticipated that operations will again require some non-cash working capital.

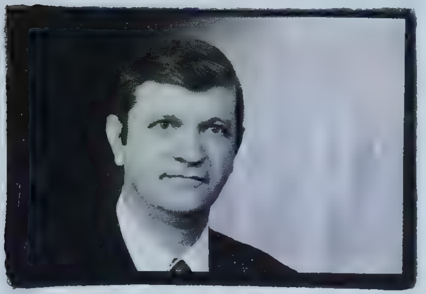
The Company also received proceeds of $25.4 million from the disposal of the North American agricultural business unit. The Company repaid $10.9 million in long-term debt and paid dividends of $7.2 million in 1996. At December 31, 1996, the Company had available approximately $80.0 million of short-term bank credit facilities. The Company continues to service both its long-term and short-term indebtedness with cash produced by its operating activities.

During the year ended December 31, 1995, cash provided from operating activities decreased by $15.3 million to $38.4 million. As in previous years, the funds from operating activities were primarily used to fund purchases of capital assets. Although the funds from operations increased by $12.0 million from $57.7 million to $69.7 million over the previous year, the non-cash working capital requirements in 1995 increased by $27.4 million to $31.4 million. Most of this increase was reversed in 1996 as expected. Also, in January 1996, the Company's major automotive customers caught up on the December late payments. At December 31, 1995, the Company had available approximately $30.0 million of short-term bank credit facilities. During 1995, the Company renewed a bank term loan of US$4.57 million for two years. The Company also repaid $2.4 million in long-term debt and paid dividends of $6.2 million.

János Ivanics, General Manager, Mezőgép

During the year ended December 31, 1994, cash provided from operating activities increased by $37.4 million to

$53.7 million. As in previous years, the funds from operating activities were primarily used to fund purchases of fixed assets. At December 31, 1994 the Company had available approximately $28.0 million of short-term bank credit facilities. During 1994, the Company renewed a long-term bank loan of US$5.3 million for one year. This loan comprised the majority of current bank advances at December 31, 1994. Also during 1994, the Invar subsidiary received $3.8 million in a bank term loan secured by its fixed assets. Linamar also borrowed US$2.0 million to fund the cash flow of its Hungarian subsidiary which experienced a $10.7 million increase in sales to outside customers during 1994.



Attila Kubanek-Góga, Plant Manager, Linamar Products Division

The Company's interest free loans result from government initiatives and are repayable to the various levels of government according to the terms indicated in the attached financial statements. It is not possible for the Company to predict the likelihood of similar loans being available in the future.

The Company believes that cash from operations and borrowings available under its revolving credit facility will be sufficient to meet its anticipated cash needs for the foreseeable future. On January 4, 1995, the Company announced that the Board of Directors had declared its first dividend as a public company. The amount of that dividend was seven cents per share. The Company continued to pay dividends on a quarterly basis over the balance of 1995 and the amount of those dividends reflected the Company's performance during the year ended December 31, 1994. Similarly, the Company continued to pay dividends at the rate of eight cents per share on a quarterly basis through 1996 and the amount of those dividends reflected the Company's performance during the year ended December 31, 1995. Management expects that the Board of Directors will continue its established dividend policy. In 1997, the Company expects to be able to maintain its future interest expense at the current low level, support the dividend policy, and make certain payments on long-term debt without incurring further long-term debt. The Company plans to repay both the US$4.57 million and the US$2 million loans in 1997.

Deferred Taxes

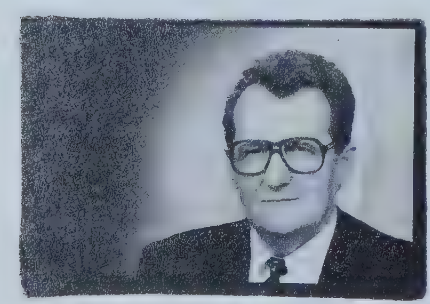
In 1996, deferred taxes increased by $4.0 million due to increased timing differences resulting from depreciation on capital assets and the reduction of losses carried forward in three subsidiaries.

Outlook

The Company expects that the sales revenue from the automotive section of the precision machining segment will continue to grow in 1997 at a similar rate experienced during the year ended December 31, 1996. This sales growth, which is anticipated to be approximately $120 million, is expected to develop from continued expansion in current programs as the related end products become increasingly used in new automotive models. The Company continues to receive new automotive related contracts for machining parts and for

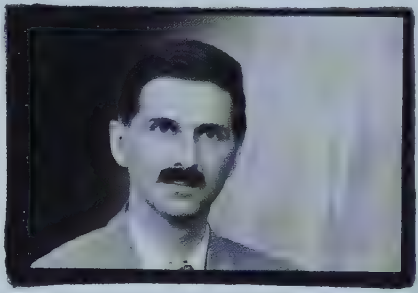
assemblies. Most of the precision machining segment's new business typically has a six to fifteen month start-up phase while equipment is obtained and the manufacturing process is defined. Over the subsequent year or two, the process is then refined and the customer's volumes are steadily increased to the expected full production level.

Linamar continues to enter into more long-term contracts. As this occurs, the Company is maximizing the use of general purpose machinery and reviewing the timing of the expiry of these contracts to ensure there is minimal disruption to the Company's operations. At December 31, 1996, the Company had approximately $19 million in outstanding commitments for capital expenditures under purchase orders and contracts, and a further $12.6 million in accounts payable. The majority of these commitments relate to new business coming on stream over the next two years. The Company expects to make payments for capital assets totalling $75 million in the next year, a substantial portion of which will be used to acquire new machinery for new programs and to increase capacity as required for current programs. Since December 31, 1996 the Company has contracted for a $1.0 million building addition at Vehcom, and purchased, for $1.25 million, another industrial property which is located on approximately 7.9 acres in Guelph .



Márton Havasi, Director, Mezőgép

The Company's main competitors are approximately six similar sized operations in the USA as well as the in-house capabilities of the automotive manufacturers. Linamar anticipates that it will continue to face strong and increasing competition based on price, quality, service and delivery. In order to better serve its customers, Linamar is continuing to enter into strategic alliances with its suppliers to submit bids for machined castings or forgings.



Belá Valkó, Plant Manager, Békéscsaba

The Company is tentatively developing a casting capability as it works with a new minority partner in a small casting company, Diversa Cast Technologies Inc. This casting capability would allow the Company to use the "lost foam" technique to produce some castings for products which the Company currently machines. The level of sales in this area is expected to grow to about $5 million in two or three years.

Linamar operates through facilities which function as autonomous operating units. Each facility is operated as a profit centre managed by a general manager with production expertise who has discretion, within broad guidelines established by Linamar's senior management, to determine hours of work, sources of supply and contracts to be performed. The independence of each plant allows Linamar to react quickly to new business opportunities. It also allows operational decision-making and cost control to occur at the plant level, thus permitting the monitoring of each profit centre and the effective implementation of management incentive programs.

Linamar has identified and pursues quality control as a key competitive element. Linamar has invested heavily in advanced measuring and monitoring equipment and utilizes a program known as "Statistical Process Control". This gives a machine operator the ability to rectify deviations that potentially lead to quality problems or unnecessary machine wear. Linamar also performs ongoing machine, process and gauge capability studies to ensure that quality and productivity are maintained or improved where possible. Currently, nine of Linamar's fourteen facilities are QS-9000 registered suppliers with the balance of the facilities striving for registration in 1997. Linamar restricts its automotive research and development activities primarily to ongoing process development undertaken at each plant by the management team in response to opportunities as they arise. Research and development for agricultural equipment, although similar in nature, is more product than process oriented.

The Company continues to explore and obtain automotive components and parts opportunities in Europe for manufacture in its Mezőgép facility. The automotive experience gained from the current manufacture of vacuum pumps and the related ISO 9002 Registration make the Mezőgép subsidiary a capable producer for the Western European market. The Company also continues to explore such opportunities in Canada with the new North American auto manufacturers. The Company's active pursuit of the QS-9000 Registration for each of its facilities demonstrates to its customers the Company's dedication to quality.

The Company expects that in 1997 the agricultural equipment segment's revenues at Mezőgép will experience a modest increase. The Company is operating at Western Combine and Portage Mfg. on a cost reimbursement agreement until October 1997 when Western Combine and Portage Mfg. will cease operations. The corn headers produced by Mezőgép for the Western European market currently represent the only agricultural product of the Company which has a significant share of its market. However, Mezőgép does have a variety of other harvesting products which it produces. In addition, Mezőgép will continue to supply AGCO with combine parts and assemblies through its long-term contract.

During 1997, the Company's Mezőgép subsidiary plans a public issuance of common shares to be traded on the Budapest Stock Exchange. If successful, the proceeds of the issuance will be used both to repay the current Mezőgép loans from Linamar and bank loans supported by Linamar and to fund future capital expansion programs in Hungary. Such funding would provide Mezőgép with a strong financial base to enable it to be developed as the Company's production base for the supply of machined and assembled components for the European automotive industry. Upon the successful completion of the planned public issue, Linamar would still maintain a controlling interest of approximately 60%.

Risks associated with Eastern Europe include political and currency instability, developing infrastructure, the potential inability to repatriate earnings, and a developing legal framework. While reforms directed at political and economic liberalization are in process in these jurisdictions, including Hungary, and in some respects, significant progress has been made, there can be no certainty that these reforms will continue or, if continued, will be effective.

Other

As noted in the accompanying consolidated financial statements, Linamar's export sales from Canada to the United States amounted to $518.1 million and export sales to Europe and Asia amounted to $2.7 million during the year ended December 31, 1996. Similarly, many of the Company's raw materials, both forgings and castings, are purchased from the USA. Most of Linamar's contracts, both for revenue and expenses, are thus denominated in US dollars. The Company's policy is not to speculate on exchange rates. The Company minimizes the net foreign currency exposure in contracts by negotiating sale contracts which provide a measure of exchange rate protection and by entering into forward exchange contracts. These contracts are designed to protect margins anticipated at the time of the contract award. The Company normally purchases forward contracts monthly for a three year term to cover the projected exposed US dollar net cash inflow. The Company's foreign currency denominated loans act as hedges as well. The Company is currently under pressure from its US customers to quote future contracts in Canadian funds. As a result, it is expected that the Company's foreign currency net cash flow will be reduced. Due to this pressure and the recent negative points on forward contracts, the Company has postponed the purchase of further forward contracts until these issues are resolved.

The Company attempts to offset cost increases through a concerted effort in its sales, purchasing and production functions to maximize productivity. In the contract bidding process, economic inflation factors are estimated and applied to the costs. Also, certain of the long-term fixed price contracts have inflation protection clauses.

Internal efficiencies achieved by purchasing and production improvements generally provide moderate inflation protection. Considering current rates of inflation in North America, the Company believes that inflation does not pose a significant risk.

The precision machining segment accounted for approximately 93.0% of the Company's consolidated sales during the year ended December 31, 1996. Approximately 33.6% of the consolidated sales were to customers included in the General Motors group of companies, approximately 13.5% were to customers included in the Ford Motor group of companies and approximately 8.5% were to Detroit Diesel Corporation. Although no single product sold to any of these customers constituted more than 10% of the Company's consolidated sales, the loss of any of these customers or the delay or cancellation of any orders from or production projects for any such customers could have a material adverse effect on the financial condition of the Company.

Linamar has a license to make, use and sell vacuum pumps covered by certain patents which will expire in approximately one year. The Company believes that as a result of its manufacturing experience the expiration of this license will not have a significant effect on its results of operations in this area.

The Company has been named in lawsuits related to misuse of the Company's manufactured components and in certain employee related situations. The Company is vigorously defending these actions. It is expected that these may result in small costs to the Company either through negotiated settlements or through the cost of the deductible in the cases which are being handled by the insurers.

While management believes that Linamar is in substantial

compliance with all material governmental requirements relating to environmental controls on its operations, changes in such regulations are ongoing and may make environmental compliance, such as emission control, waste disposal and water quality management, increasingly expensive.

The Company has established an Environmental Committee of senior management. This Committee reviews on an ongoing basis the Company's environmental programs and monitors its compliance with applicable environmental laws. This Committee reports quarterly to the Board of Directors of the Company. The Company also annually engages an independent environmental auditor to review the Company's compliance with applicable environmental requirements. Linamar knows of no material environmental liability at this time. Management is not able, however, to predict future costs which may be incurred to meet environmental obligations.

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